



STATE OF ARIZONA
DEPARTMENT OF INSURANCE

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CHARLES R. COHEN
Director of Insurance

TO: Health Care Providers of Premier Healthcare, Inc. d.b.a. Premier Healthcare of Arizona (Premier)

FROM: Charles R. Cohen
Director of Insurance

DATE: December 14, 1999

RE: **Receivership of Premier**

On November 19, 1999, I wrote to you to explain Premier's statutorily required Plan for Risk of Insolvency (the Plan), and to request your cooperation while we operate under the Plan to transition Premier's enrollees to other health insurance coverage. This is to update you on the status of the transition, and to request your continued cooperation.

The Plan includes use of Post-Receivership premiums and up to \$10 million of funding by Premier's Reinsurer for payment of Provider claims incurred November 16, 1999 (the date Premier was placed in Receivership) and subsequent for Continuation of Coverage. Continuation of Coverage is defined as follows:

- The Reinsurer will continue the Plan benefits covered under the applicable Group Service Agreement Contracts with respect to each Member who is confined in a Hospital on the Date of Plan Insolvency (November 16, 1999) for expenses incurred and payable by such Member on or after such date until the Member's discharge from the inpatient facility.
- The Reinsurer will continue the plan benefits for any other Member under the applicable Group Service Agreement Contracts with respect to expenses incurred for medical services or treatment by Providers received after the Date of Plan Insolvency (beginning November 16, 1999) until the end of the Group Service Agreement Contract period or sixty (60) days, whichever is longer, for which Member premiums less administrative fees are paid and received.

The Receiver is currently preparing to adjudicate and pay the Post-Receivership (November 16, 1999 and subsequent) claims. Claims payments will commence shortly, and will be funded by the Reinsurer through Premier.

Preliminary projections indicate that the reinsurance proceeds of \$10 million will be adequate to discharge claims during the Continuation of Coverage period under the Plan. In the event developing information reflects trends which indicate that the \$10 million of reinsurance proceeds will not be adequate to discharge all Post-Receivership claims, we will immediately so advise you. In an effort to conserve the \$10 million of funds earmarked for Post-Receivership claims, we have endeavored to expeditiously transition as many groups as possible to other insurance carriers.

After initially providing approximately 85,000 notices to Enrollees, Employer Groups, Brokers and Providers describing some of the intricacies of the Receivership, the Receiver has diligently continued to contact Employer Groups and Providers individually to facilitate transition of the groups and appeal to Providers to continue their responsibilities during the Plan period.

With respect to Premier's Medicare business, on November 30, 1999 with the termination of the Medicare Contract, 20,778 Medicare enrollees were transitioned to fee-for-service or other coverage.

On the date of Receivership, Premier's Commercial (non-Medicare) business consisted of approximately 55,000 members. As of December 9, 1999, ninety-five percent of the Group Employer population (1,963 Groups out of 2,076) have been contacted and 11,397 members have been transitioned.

Initial projections for transition of the Commercial business were somewhat optimistic in that the broker community is being faced with higher than anticipated rates and other underwriting issues in transitioning the Groups. We still project however, that another 16,000 to 18,000 members will disenroll effective December 31, 1999. Therefore, a total of approximately 29,000 Commercial members will be transitioned by January 1, 2000, leaving between 26,000 to 28,000 members remaining with Premier, at that point in time.

I again request your cooperation in effectuating the Plan and transitioning Premier's members. We must work together to assure that the members receive the health care benefits to which they are entitled, and for which they continue to pay premiums. As explained above, we expect to be able to compensate you in accordance with your contract for rendering Post-Receivership services. Fortunately, the majority of Providers continue to honor the terms of their Provider Agreements. Less than five percent of the contract Providers have attempted to terminate, or are otherwise failing to comply with the provisions of the group service agreements contracts. We have contacted, or are in the process of contacting, each of them.

I am specifically requesting that you do not:

- Pursue Enrollees for outstanding balances.
- Refuse to see Enrollees.
- Require payment in advance as a condition to seeing Enrollees.
- Limit services to "emergency services."
- Terminate the Provider Service Agreements.

The non-recourse provisions of the Provider Services Agreements, the Court's Order for Appointment of Receiver and Injunction, and the provisions of A.R.S. § 20-1072, prohibit the above actions.

As I explained in my November 19, 1999 correspondence, claims for Pre-Receivership services are legally required to be handled separately from payment for Post-Receivership services under the Plan. The Receiver is identifying and collecting Premier's Pre-Receivership assets, including substantial amounts of unbilled and uncollected premiums and reinsurance recoveries. It would be premature to speculate how much will ultimately be available for payment of Pre-Receivership claims or whether Pre-Receivership claims will be paid in full or in part. As soon as practicable, we will evaluate the Pre-Receivership claims and assess Premier's ability to pay rightful claims. That process is tied to whether Premier can be rehabilitated, or must be liquidated instead. We will keep you apprised as matters develop.

Thank you for your continued cooperation. If you have any questions, please contact Premier at 1-(888) 774-3320 or 1-(520) 519-2554.